

THE 1998 NGO SUSTAINABILITY INDEX:

FOREWORD

This is the 2nd edition of the NGO Sustainability Index, created and developed by USAID's Bureau for Europe and the New Independent States (ENI) with the NGO community. Since 1997 this Index has annually gauged the strength and overall viability of the NGO sector in the transition countries of Central and Eastern Europe and the New Independent States.

The Index was first developed to meet the field's need for qualitative indicators in the area of NGO development. Several ENI Missions now use the Index as an indicator in their Results Review and Resource Request (R4) as it allows them to capture qualitative data in a quantitative format. Gathering data for the Index throughout the region provides the Bureau with a way to compare country-specific and regional progress and trends -- and to highlight constraints to this basic element in the development of civil society.

USAID staff and implementers share the responsibility of collecting background information on the sector and convening a focus group of resident experts. The insights, which are internalized through the process of discussing the health of the sector with the NGO observers and activists, can help USAID staff and implementers make everyday project management decisions and design longer term project development strategies. The Index thus has served as a diagnostic for uncovering areas of unmet needs. We hope it will have wider applicability for other donors and partners, as they plan their own NGO assistance efforts.

The Index is a living document: it was created with close collaboration with NGOs, methodologically improved with NGOs and scored with NGOs. Indeed 23 countries are now included, 6 more than in 1997, our first year. With a refined methodology and broader participation, this year's Index provides insight into trends emerging in the region, and opens the door to a closer look at the role of development assistance in the future.

The 1998 Index findings:

- **Donor Assistance.** Donor assistance has been very effective launching NGOs, and in countries like Albania, Romania, and the Central Asian Republics NGOs have matured. However, the greater challenge is to advance the NGO development process. Interestingly, preliminary results suggest that larger amounts of donor funds do not necessarily contribute to sustained progress.
- **Role of Government.** As witnessed in Bulgaria and Georgia, positive standouts in their respective sub-regions, a government's active support and encouragement of the NGO sector to become a full partner in the development process plays a critical role in the success of the sector. In contrast, worst performers in the ENI region are, predictably, those countries with the most authoritarian regimes: Azerbaijan, Serbia, and Tajikistan. Still, international assistance contributed to strengthening the organizational capacity and

financial viability of the NGOs that do exist.

- **Legal Environment.** A supportive legal environment is a necessary, but not sufficient condition for the development of a strong NGO sector. Equally important are effective implementation and enforcement along with NGO's determination and ability to exploit a positive enabling environment. For example, in the Czech Republic, a new Law on Foundations and Associations was passed in 1998 shortly after USAID closeout, but a lack of training of relevant judicial officials has made the new law difficult to implement.
- **People Participation.** Since the initiation of donor assistance to the ENI region, more and more people have become involved with NGOs, and more people's lives have been positively affected by NGOs, whether through social services to vulnerable groups or policy reforms that advance citizen's rights and interests. A greater understanding of the of people participation and how this phenomena has impacted the consolidation of democracy and enhanced economic reform is needed.
- **Post-Donor Presence.** As countries graduate from USAID and other donor assistance, more effort must be placed on strengthening revenue raising, corporate philanthropy and gift-giving, and generally creating a positive environment for domestic NGO financial support.

THE NGO SUSTAINABILITY INDEX:

How it is measured

Five different aspects of the NGO sector are analyzed in the Index: legal environment, organizational capacity, financial viability, advocacy and the public image of NGOs. Each of these five aspects is examined, with a focus on the following questions:

- 1) What has been accomplished?
- 2) What remains a problem?
- 3) Do local actors recognize the nature of outstanding challenges?
- 4) Do the local actors have a strategy and the capacity to address these challenges?

A brief explanation of the criteria used to evaluate each aspect of sustainability follows:

Legal environment. The legal environment section analyzes the legal status of non-governmental organizations. Factors shaping the legal environment include the ease of registration; legal rights and conditions regulating NGOs; and the degree to which laws and regulations regarding taxation, procurement, access to information and other issues benefit or deter NGOs' effectiveness and viability. The extent to which government officials, NGO representatives, and private lawyers have the legal knowledge and experience to work within and improve the legal and regulatory environment for NGOs is also examined.

Organizational capacity. Organizational capacity addresses the operation of NGOs. This section examines whether a critical mass of leading organizations exists, and whether an infrastructure exists to nurture NGO development. Questions evaluated include: Is there an indigenous infrastructure to support NGOs, such as a body of information and curricula on the not-for-profit sector and a core of professionals who are experienced practitioners and trainers of NGO management? Does a core group of mature NGOs exist in a variety of sectors and geographic areas with well-developed missions, structures and capacity?

Financial viability. Factors influencing the financial viability of NGOs include the state of the economy, the extent to which philanthropy and volunteerism are being nurtured in the local culture, as well as the extent to which government procurement and commercial revenue raising opportunities are being developed. The sophistication and prevalence of fundraising and strong financial management skills are also considered, although this overlaps with organizational capacity, described above.

Advocacy. The advocacy aspect looks at NGOs' record in influencing public policy. The prevalence of advocacy in different sectors, at different levels of government, as well as with the private sector is analyzed. The extent to which coalitions of NGOs have been formed around issues

is considered, as well as whether NGOs monitor party platforms and government performance. However, it does not measure the level of NGOs engagement with political parties.

Public image. The public image of NGOs is determined by the extent and nature of the media's coverage of NGOs, the awareness and willingness of government officials to engage NGOs, as well as the general public's knowledge and perception of the sector as a whole. Public awareness and credibility directly affect NGOs' ability to recruit members and volunteers, and win over indigenous donors.

Ratings: What they mean in general terms

The USAID NGO Sustainability Index uses a seven point scale, to facilitate comparisons to the Freedom House indices, with 7 indicating a low or poor level of development and 1 indicating a very advanced NGO sector. The following section elaborates on the characteristics of each level of development:

- 7** Erosion or no change since the Soviet era. A war, with its human and material costs, depleted economy, highly divided society or totalitarian regime and the like, has set the development of the sector back.
- 6** Little progress since Soviet era, one problem or constraint has replaced another. Facilitating the development of local capacity is severely limited by a hostile authoritarian regime, state-controlled media; brain drain; and/or a small or highly fractured community of activists with very little capacity or experience in organizing and initiating activities, running organizations, and/or little interest in doing so.
- 5** Programmatic success in developing the local capacity or facilitating progress in the aspect in question is hampered by a contracting economy; an authoritarian leader; highly centralized governance structure; a controlled or reactionary media; or a low level of capacity, will, or interest on the part of the NGO community. The absorptive capacity of the NGO sector is limited -- perhaps limited geographically to the capital city, or sectorally to

two or three areas of activity or policy issues.

- 4 Progress in the aspect in question is hampered by the factors cited above, but to a lesser degree: perhaps by a stagnant rather than a contracting economy, a passive rather than hostile government, a disinterested rather than controlled or reactionary media, or a community of good-willed but inexperienced activists. While NGOs in the capital city or in three or four sectors are progressing, others lag far behind.
- 3 Foreign assistance is able to accelerate or facilitate reform because the environment is generally enabling and/or local progress and commitment to developing the aspect in question is strong. An enabling environment includes a government open to reform (legal), a growing economy (financial), some decentralization of governing structures (advocacy), or an independent media (image). NGOs in regional centers and in four or five sectors are beginning to mature.
- 2 The environment is enabling and the local NGO community demonstrates a commitment to pursuing needed reforms and to developing its professionalism. Foreign assistance continues to accelerate or facilitate these developments. Model NGOs can be found in most larger cities, in most regions of a country, and in a variety of sectors and issues.
- 1 While the needed reforms and/or the NGO sector's development is not complete, the local NGO community recognizes which reforms or developments are still needed, and has a plan and the ability to pursue them itself. Model NGOs can be found in cities and towns, in all regions of a country, in numerous different sectors.

On the following table we have also included Civil Society scores from the 1998 version of *Nations in Transit* to demonstrate how these two tools could be used together. (The Civil Society score gauges the number of NGOs, the forms of interest group participation in politics that are legal, the presence of trade unions, and the numerical/proportional membership of farmer's groups, small business associations, etc.) A specific focus on the sustainability of the NGO sector enriches the understanding and utility of the Civil Society score.

NGO SCORE SHEET TO BE INSERTED HERE

1997 - 1998 COMPARATIVE GRAPH TO BE INSERTED HERE

Ratings: A Closer Look

The following sections go into further depth about the characteristics and trends in each of the five aspects of the sector's development. These characteristics and stages are drawn from empirical observations of the sector's development in the region, rather than a causal theory of development.

Given the decentralized nature of NGO sectors, many contradictory developments may be taking place simultaneously. Therefore we do not attempt to break out the characteristics of the five aspects into seven distinct steps of development. Instead, these characteristics are clustered into three basic stages, with the numbers in parentheses indicating the 1-7 numerical equivalents. The least developed stage corresponds to 5 to 7 points on the scale, the intermediate stage corresponds to 3 to 5 points, and the most advanced stage corresponds to 1 to 3 points. Whether a score of 3 or 4 is chosen, is a judgement call, using the general description of the seven points and other countries' scores as reference points.

Equivalent Agency Objective: "Promoting legislation that encourages organization and operations

Legal Environment

of civil society organizations (CSOs)."

Stage I (5-7)

The absence of legal provisions, the confusing or restrictive nature of legal provisions (and/or their implementation) on non-governmental organizations (NGO) make it difficult to register and/or operate (i.e., regulation to the point of harassment). Assistance programs address status laws pertaining to registration, internal management/governance, scope of permissible activities, reporting, dissolution, and other topics; as well as the degree of bureaucratic and administrative impediments to NGO formation and operation; degree of state regulation, harassment of or violence toward NGOs.

Stage II (3-5)

NGOs have little trouble registering and do not suffer from state harassment. They are permitted to engage in a broad range of activities, although taxation provisions, procurement procedures, etc. may inhibit NGOs' operation and development. Programs seek to reform or clarify existing NGO legislation, to allow NGOs to engage in revenue-raising and commercial activities, to allow national or local governments to privatize the provision of selected government services, to address basic tax and fiscal issues for CSOs, etc. The local NGO community understands the need to coalesce and

advocate for legal reforms benefitting the NGO sector as a whole. A core of local lawyers begins to specialize in NGO law by providing legal services to local NGOs, advising the NGO community on needed legal reforms, crafting draft legislation, etc.

Stage III (1-3)

The legislative and regulatory framework begins to make special provisions for the needs of NGOs or gives not-for-profit NGOs special advantages such as: significant tax deductions for business or individual contributions, significant tax exemptions on CSOs, open competition among NGOs to provide government-funded service, etc. Legal reform efforts at this point are primarily a local NGO advocacy effort to reform or fine tune taxation laws, procurement processes, etc. Local and comparative expertise, as well as availability of legal services and materials, on the NGO legal

Organizational Capacity

framework exists.

Note: The International Center for Not-for-Profit Law (ICNL) contributed to defining these stages of development. ICNL's web site (www.icnl.org) provides comparative analyses of NGO laws.

Equivalent Agency Objective: "Promoting more effective management of CSOs. Result 2: Transparency of CSO management. Result 3: Increased demand for CSO services."

Stage I (5-7):

NGOs are "one-man shows," completely dependent upon the personality of one or two major figures. They often split apart due to personality clashes. NGOs lack a clearly defined sense of mission. At this stage, NGOs reflect little or no understanding of strategic planning or program formulation. They lack organizational skills and procedures for budgeting and tracking expenditures; and they lack the ability to monitor, report on, and evaluate programs. Organizations rarely have a board of directors, by-laws, staff, or more than a handful of active members. Programs provide basic organizational training to NGO activists.

Stage II (3-5):

Individual NGOs, or a number of NGOs in individual sectors (women, environment, social services, etc.), demonstrate enhanced capacity to govern themselves and organize their work. Individual NGOs in at least the major sectors -- environment, business, social sector, human rights/democracy -- maintain full-time staff members and boast an orderly division of labor between board members and staff. Local NGO support centers are founded to inform, train, and

advise other NGOs. Activities include newsletters, libraries, consultations or other services. NGO activists may demand that training be at a more advanced level. Programs train local trainers and develop local language materials and locally sponsored courses to teach organizational skills. Local trainers learn how to facilitate: strategic planning exercises and program development, financial management structures, appropriate communication channels both within and outside an organization, and team building.

Stage III (1-3):

A few transparently governed and capably managed NGOs exist across a variety of sectors. Essential organizational skills are demonstrated, and include how to recruit, train, and manage a volunteer network. A professional cadre of local experts, consultants and trainers in non-profit management exists. An accessible network for identifying trainers and consultants exists. NGOs recognize the value of training. The lack of financial resources may remain a constraint for NGOs wanting to access locally provided NGO management training. Topics of available training cover: legal and tax issues for NGOs, accounting and bookkeeping, communication skills, volunteer management, media and public relations skills, sponsorship and fundraising.

Financial Viability

Equivalent Agency Objective: "Promoting more effective management of CSOs. Result 1: Financial Viability."

Stage I (5-7):

New NGOs survive from grant to grant and/or depend financially on one (foreign) sponsor. NGOs at this stage lack basic fundraising skills, such as how to write a proposal. Programs seek to teach fundraising skills in order to diversify funding sources. Even with a diversified funding base, donors remain overwhelmingly international. A depressed local economy may contribute to this dependency.

Stage II (3-5):

NGOs pioneer different approaches to financial independence and viability. Some might survive and continue to grow modestly, by reducing foreign funding and sticking to a minimal, volunteer-based operation. Individual NGOs experiment with raising revenues through providing services, winning contracts and grants from municipalities and ministries to provide services, or attempting to attract dues-paying members or domestic donors. NGOs begin to pool resources by sharing overhead costs, such as hiring one accountant for several NGOs. Efforts are made to simplify and/or establish uniform grant application procedures undertaken by donors or governmental agencies. A depressed local economy may hamper efforts to raise funds from local sources. Training programs accelerate financial viability by offering strategic planning, revenue raising and advanced fundraising skills through indigenous trainers and NGO support centers. NGOs begin to understand the importance of transparency and accountability from a fundraising perspective. NGO centers may provide "incubator" services to decrease administrative costs for fledgling NGOs.

Stage III (1-3):

A critical mass of NGOs adopt rules on conflict of interest, prohibitions on self-dealing and private procurement, appropriate distribution of assets upon dissolution, etc., to win potential donors' confidence. In a conscious effort, the local NGO sector may lay the groundwork for financial viability by cultivating future sources of revenue for the sector. This might include lobbying for government procurement reform for NGO-delivered services, tax reform to encourage revenue-generating activities, providing exposure through NGO trainers and NGO support center to successful domestic precedents, cultivating a domestic tradition of corporate philanthropy, or cultivating international donors. There is also a growing economy which makes growth in domestic

Advocacy

giving possible.

Equivalent Agency Objectives: "Increasing participation in policy formulation and implementation" and "Strengthening civil society's oversight of state institutions."

Stage I (5-7):

Broad umbrella movements, composed of activists concerned with a variety of sectors, and united in their opposition to the old regime fall apart or disappear. Some countries at this stage have not even experienced any initial burst of activism. Economic concerns become predominant for most citizens. There may be an increase in passivity, cynicism, or fear within the general public. NGO activists are afraid to engage in dialogue with the government, feel inadequate to offer their views and/or do not believe the government will listen to their recommendations. NGOs do not understand the role that they can play in "public policy" or do not understand concept of "public policy". Programmatic activities begin to introduce the importance of collecting empirical data and first-hand information in order to share facts rather than opinions with officials or concerned citizens.

Stage II (3-5):

Narrowly defined advocacy organizations emerge and become politically active in response to specific issues, including issues that emerge during the transition: human rights, abortion, opportunities for the disabled, environment, etc. Organizations at Stage II development may often present their concerns to inappropriate levels of government (local instead of national and vice versa). Weakness of the legislative branch might be revealed or incorrectly assumed, as activists choose to meet with executive branch officials instead ("where the power truly lies.."). Beginnings of alternative policy analysis are found at universities. The beginnings of information sharing and

networking between NGOs, and the existence of an NGO support center to inform and advocate its needs within the government may develop. Programmatic initiatives include training in advocacy techniques, coalition building, communication techniques, and policy analysis.

Stage III (1-3):

The NGO sector demonstrates the ability and capacity to respond to changing needs, issues and interests of the community and country. As NGOs secure their institutional and political base, they begin to 1) form coalitions to pursue issues of common interest, such as children's rights or handicapped care; 2) monitor and lobby political parties; 3) monitor and lobby legislatures and executive bodies. NGOs demonstrate the ability to mobilize citizens and other organizations to



respond to changing needs, issues, and interests. NGOs at stage three will review their strategies, and possess an ability to adapt and respond to challenges by sector. A prime motivator for cooperation is self-interest: NGOs may form alliances around shared issues confronting them as non-profit, non-governmental organizations.

Closest (Equivalent) Agency Objective: "Increasing internal CSO democratic governance practices."

Stage I (5-7). The general public and/or government is uninformed or suspicious of NGOs as institutions. Most the population does not understand the concept of "non-governmental" or "not-for-profit", including government officials, business leaders and journalists. Media coverage may be hostile, due to suspicion of a free but uninformed media, or due to the hostility of an authoritarian government. Charges of treason may be issued against NGOs. Due to a hostile atmosphere caused by an authoritarian government, if individuals or businesses donate to NGOs at all, they do so anonymously.

Stage II (3-5). The media generally does not tend to cover NGOs because it considers them weak and ineffective. Individual NGOs realize the need to educate the public, to become more transparent, and to seek out opportunities for media coverage. Individual local governments

demonstrate strong working relationships with their local NGOs, as evidenced by their participation in advisory committees, consultations, public-private initiatives, and the funding of an occasional grant.

Stage III (1-3). This stage is characterized by growing public knowledge of and trust in NGOs, and increased rates of voluntarism. NGOs coalesce to mount a campaign to win public trust. Widespread examples of good working relationships between NGOs and national and local governments exist, and can result in public-private initiatives or NGO advisory committees for city councils and ministries. Increased accountability, transparency, and self-regulation exists within the NGO sector to win public trust, including existence of a generally accepted code of ethics or a code of conduct.

Comparing 1997 to 1998 scores, the reader will find several scores lower in 1998. In some cases this reveals a deeper understanding on the data collectors' and reviewers' part that certain phenomena which appeared positive were actually a reflection of a lack of development and/or the weakness of a particular country's NGO sector. Whether NGOs' income is taxed is a case in point: last year, data collectors and reviewers noted the absence of taxation on NGOs as positive. This year, rather than assuming that the absence of taxation is positive, we asked ourselves whether a society is a "pre-tax" society, (i.e., tax laws are vague, government enforcement is sporadic, and taxpayers' attitudes are lax). Should the transition continue in such a country, a phase of stricter laws and more rigorous tax enforcement vis a vis NGOs may transpire as an unpleasant interim stage, until NGOs are able to build a case for more liberal treatment by the authorities. In such a case, a debate on whether NGOs should be liable is not necessarily an indicator of a government harassing NGOs, but could be a healthy step in a country's economic transition process, which ultimately benefits the NGO sector as well.

Methodology

Although the degree of expert vetting varied somewhat from country to country, the following instructions, given to USAID field officers for gathering data and drafting a country report, were followed:

1. Collect relevant information for each of the five aspects included in the index and draft a country overview statement.
2. Convene a group of 6-10 observers of the sector--drawing on donors, NGO assistance implementors, representatives of NGO support centers, and representatives of the chief sub-sectors, such as women's, environmental, or human rights groups.
3. Share a draft of the updated overview statement with this group for its comments and additions. You may want to have a longer description for your own in-country usage and a more concise overview statement for our regional document. Two to four pages (2-4 pp) per country is more than enough for the regional piece.
4. Ask the group to rank the sector according to the five aspects from a scale of 1 to 7. You may wish to ask those members of your group whose scores differ markedly with the others' rankings ("outliers") to explain the reasoning behind their rankings. Please average the group's final rankings per aspect and round up or down you see fit.
5. We will collect the country rankings and compare them with the overview statement's justification of the rankings as well as with the other countries' rankings. Last year we found some missions were "hard graders" while others were "easy graders." So we will convene a working group here as well, which may adjust individual countries' aspect scores up or down. If, however, we are inclined to adjust by more than a point, we will consult with you first. (The overall score is simply the average of the five aspect scores.)

The methodology used by the committee at USAID/Washington to review the Index was as follows:

1. After USAID field officers of each country submitted a draft report, each country report was checked for comprehensiveness by a member of the reviewing committee. A first round of additions and clarifications were requested.
2. The overview statements were reviewed by the five-member USAID/Washington committee. The committee discussed both the overall and individual sector rankings.
3. Any discrepancy between the field report and committee opinion were forwarded to the field. Field officers were asked to justify their original rankings.
4. After considering explanations from the field, the committee agreed upon final scores, which are the basis of this index.